OVERVIEW:

Co. reported 2012 net income of $829m or $15.79 per share and 4Q12 net income of $58.8m or $1.13 per diluted share.
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PRESENTATION
Operator
Good day, everyone and welcome to the Everest Re Group Ltd. fourth quarter 2012 earnings call. Today’s conference is being recorded. At this time, for opening remarks and introductions, I’d like to turn the conference over to Beth Farrell. Please go ahead.

Beth Farrell - Everest Re Group, Ltd. - VP IR
Thanks, Tim. Good morning and welcome to Everest Re Group’s fourth-quarter and full-year 2012 earnings conference call. On the call with me today are Joe Taranto, the Company’s Chairman and Chief Executive Officer, Dom Addesso, our President, and Craig Howie, our Chief Financial Officer.

Before we begin, I will preface our comments by noting that our SEC filings include extensive (technical difficulty) with respect to forward-looking statements. In that regard, I note that statements made during today’s call, which are forward-looking in nature, such as statements about projections, estimates, expectations and the like, are subject to various risks. As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now let me turn the call over to Joe.

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO
Thanks, Beth. Good morning. I am pleased to report that in 2012 Everest increased shareholder value by 18% and had comprehensive income of $1 billion. These results were achieved despite losses from Sandy and the crop insurance industry having one of its worst years ever.

Achieving these results, despite these losses, demonstrates the strength of our franchise. We were pleased with our January 1 renewals. On our reinsurance business, rates, terms, and conditions were relatively the same as in 2012.

We did add some new business. Accordingly, the expected margins remain quite good for 2013 and up from 2012. Dom will provide more detail on this momentarily.
For our insurance operations, we continue to see double-digit increases in Workers’ Compensation and General Liability, and single-digit increases in D&O and Property. We believe the Workers’ Comp business is positioned for profit and that continued rate increases will provide for growth.

For our Prop book, we are expecting a much better year. Further, our net Prop premiums will increase meaningfully as we no longer purchase quota share reinsurance. Again, Dom will provide more detail.

Our investments performed very well in 2012 and are off to a good start in 2013. Craig will provide more color on this.

We brought back $40 million worth of stock in the fourth quarter and $38 million in the first quarter of 2013. We wanted to buy a great deal more, but Sandy kept us out of the market for much of the quarter. It is our plan to buy when our window reopens.

We have achieved a 13% increase in shareholder value, compounded over an 18-year period. In 2012, we did better than our historic average, coming in at 18%. Given these returns, our current quality portfolio and solid balance sheet, our stock being below book makes no sense to us, meaning we are most happy to buy more. We fully expect the price to book to correct.

In summary, I’m bullish on 2013. Our franchise has never been stronger. Dom?

Dom Addesso - Everest Re Group, Ltd. - President

Thanks, Joe, and good morning. The financial details regarding the quarter will be covered by Craig, but it is worth highlighting the areas that address how we have positioned the portfolio and what that means for current and future performance.

The attritional combined ratio continues to improve in both the reinsurance segments and the insurance segments. For reinsurance, this primarily reflects the increasing proportion of excess of loss business versus pro rata, in particular for catastrophe-exposed business, as well as increasing rates in 2012.

The calendar year combined ratio for the reinsurance book, despite Superstorm Sandy and the other catastrophe losses earlier in the year, in at 90.1%. This result reflects a 102.1% combined ratio in the US book, due to the losses incurred for Sandy, offset by a 75.4% and a 91.5% combined ratio in our international and Bermuda portfolios, respectively. This overall outcome reflects our balanced and geographically diversified book of business.

During 2012, there was a continued emphasis on excess of loss business, particularly in our non-peak zones. This allowed us to diversify or spread our aggregate exposure more broadly without any material impact on our average annual loss. Along with rate increases, this strategy helped grow our catastrophe premium by $150 million to approximately $1 billion.

At this level of premium, we are well-positioned to absorb any infrequent but significant industry event such as Superstorm Sandy. This strategy has also been instrumental in expanding our customer base, thereby improving diversification, both by client and by line of business.

Broadening of the customer base has supported some growth in the treaty and facultative casualty lines, as rates are beginning to firm. Overall, we expect margins to improve in these areas, while rates in the treaty property area begin to moderate. Nevertheless, margins and there are still favorable, as evidenced by the results this past year.

New products developed in 2012 should continue to push momentum into 2013. At January 1, we had already seen approximately $150 million of premium growth in property business as a result of these efforts. The development of our capital markets platform will continue to support this growth with the ability to bring more capacity to the marketplace.

In the insurance segment, the improving current year attritional results for the 100.9% combined ratio are due in part to continued double-digit rate increases in Workers’ Comp, and select (technical difficulty) classes. Also, growth in our shorter tail books, including primary accident and
health stop-loss business and our Property E&S operation, have provided for improved results. These businesses, along with the professional liability book and the California DIC business, have consistently produced underwriting products.

And when coupled with a rapid decline in our historical program oriented casualty book have resulted in an overall improvement in the attritional results.

It should be noted that the drought conditions that adversely impacted crop results are included in the attritional results and a 119.1% combined ratio, which had a 3.9 -- 3.8 point impact on the overall insurance combined ratio. Excluding crop, the current year attritional combined ratio stood at 97.2%.

Ongoing trend for Workers’ Comp and General Casualty rate increases, along with continued growth in accident and health and an expected improvement in crop insurance, should reflect positively into 2013. The insurance operation is expected to expand this year on the back of a number of new initiatives. Our nonstandard auto business will grow with the establishment of a new strategic relationship to be announced within the next month or so.

The Canadian platform will expand with the recent hire of a key executive there, and in the US we have added an experienced underwriting and marketing team with a specialty focus.

These initiatives, coupled with the growth in our existing portfolio due to rate increases, new business, and a higher retention of the crop business with the elimination of the quota share arrangements, will grow our top line premium.

The insurance results were impacted by prior year developments, mainly in California Workers’ Comp and construction liability. However, it should be emphasized that the contractors program has been in runoff for some time. And, in the case of Workers’ Comp, the amounts are relatively benign considering that our profits from this line of business have approximated $1 billion since inception. This is a long-term business that is emerging profitably as rate increases are earning through.

Moving onto investments, we have continued to dynamically allocate our portfolio in order to maximize returns and minimize risk. Overall, we’ve maintained above-average credit quality in the portfolio and have shortened the duration to reduce potential interest rate risk. Our allocations to equities and fixed income investments has resulted in pretax investment income and realized capital gains of $764 million in 2012 versus $627 million in 2011, a $137 million increase.

Despite significant catastrophe losses from Sandy, we achieved a 12% operating ROE and a 14% net income ROE. This was accomplished while still carrying a [capital buff], providing us with one of the strongest balance sheets in the industry. We prefer this because it provides a competitive advantage by allowing us the ability to respond aggressively into the market when the unexpected occurs.

While some in our industry are accepting of single-digit ROE’s because of the interest rate environment, our strategy is to position our underwriting portfolio to achieve improved returns and mitigate the loss of investment income.

As I have been discussing, we have been strategically shifting our portfolio towards shorter tail, higher ROE risks, but managing the potential volatility of this strategy by broadening our footprint and managing accumulations.

Our benchmark is focused on total shareholder return. We seek to achieve returns that provide a mid-teens compound annual growth and book value per share adjusted for dividends. That has proven successful for the long-term return of 13% to our shareholders despite catastrophe losses and other challenges that have confronted the industry.

Over the last year, we have established a number of new initiatives, including our newest, Mount Logan. I am quite optimistic that these efforts will enable us to profitably expand our operations over the years to come and continue to provide our shareholders with double-digit returns. Along with our talented employees, global footprint, and financial strength, we remain one of the strongest franchises in the business.
I will now turn it over to Craig for further details on the financials.

Craig Howie - Everest Re Group, Ltd. - EVP, CFO

Thank you, Dom, and good morning, everyone. We are pleased to report that Everest had a very strong year with after-tax operating income of $715.2 million or $13.62 per diluted common share. This represents an operating return on equity of 12.2%.

I won’t be comparing these results to last year, given the record catastrophes experienced in 2011.

Operating income for the fourth quarter was $41.7 million or $0.80 per diluted share.

Net income for the fourth quarter was $58.8 million or $1.13 per diluted share. Net income includes realized capital gains.

Net income for the year was $829 million or $15.79 per share. These results reflect the continued improvement in the overall current year attritional combined ratio which has declined a full 3 points from 88.0% to 85.0%. This measure excludes the impact of catastrophes, reinstatement premiums, and prior period loss development.

The total reinsurance attritional combined ratio was 80.9% compared to 83.5% in the prior year. The insurance segment attritional combined ratio was 100.9% compared to 105.8% in the prior year. However, eliminating the effects of the primary crop book, this ratio would have been 97.2% compared to 105.3% in the prior year.

These improvements, both on the reinsurance book and the insurance book, should continue as rate increases earn in over time.

Also providing better margins is the shift in our reinsurance portfolio from quota share to excess of loss.

Gross written premiums of $1.15 billion for the quarter were up 4% compared to the fourth quarter of 2011. This increase was primarily related to the insurance segment. Gross written premiums for the year were $4.3 billion. This represents an increase of 2% after adjusting for reinstatement premiums and the effects of foreign currency movement.

Earned premiums of $1.12 billion for the quarter were up 9% compared to the same quarter last year, after adjusting for reinstatement premiums. Earned premiums for the year of $4.2 billion were also up 2% on this same basis.

The reinsurance segments reported earned premiums of $3.3 billion for the year, up about 1% from 2011. Insurance segment earned premiums of $852 million were up 4% year over year. This increase was primarily due to the acquisition of Heartland and the growth in primary accident and health stop-loss business.

The fourth-quarter underwriting results were impacted by Superstorm Sandy. Total reinsurance reported an underwriting loss of $48 million for the quarter, but an underwriting gain of $327 million for the year. The insurance segment reported $46 million underwriting loss for the quarter and a $68 million loss for the year. These results reflect a crop loss of $23 million for the year, and loss reserve development, which I’ll discuss in a moment.

The overall underwriting loss for the Group was (technical difficulty) million dollars for the quarter, but an underwriting gain of $259 million for the year. Our reported combined ratio was 108.4% for the quarter and 93.8% for the year.

The commission ratio of 22.9% for the year is down 0.3 points compared to the prior year. However, after eliminating the effect of reinstatement premiums, contingent commissions, and several one-time adjustments, the commission ratio would have been 21.2% compared to 22.7% in the prior year on a similar basis. This loss ratio reflects the shift from pro rata to excess loss contracts, which generally carry a lower commission.
The expense ratio of 5% for the year is up 0.6 points compared to last year. This increase primarily relates to the increased accrual for personnel costs and incentive compensation.

For the year, we recorded $325 million of gross current year catastrophe losses for the quarter. These losses were related to Superstorm Sandy in the US this quarter. The pretax Sandy losses were $287 million after reinstatement premiums. This estimate has not changed since our preannouncement in December. Our gross catastrophe losses totaled $410 million for the year or 9.8% of earned premiums.

On reserves, we've completed our annual loss reserve studies. The results of the studies indicated that overall reserves remained adequate. In the fourth quarter, we booked some prior-year development in the insurance segment, which was offset by favorable development in the reinsurance segments.

The $48 million of prior year reserve development in the insurance segment related to construction liability and Workers' Compensation. The construction liability relates to landscaper programs that the Company no longer writes.

The $51 million of favorable prior year development in the reinsurance segments, mostly related to treaty casualty and treaty property business, both in the US and internationally.

For investments, pretax investment income was $146 million for the quarter and $600 million for the year on our $16.6 billion investment portfolio. Investment income for the year declined $20 million from one year ago. This decrease was primarily driven by declining reinvestment rates, partially offset by higher limited partnership income for the year.

Despite the declining rates, our investment portfolio continues to perform well. It is a conservative, well-diversified portfolio with high average credit quality. The pretax yield on the overall portfolio was 3.5% with a duration of three years.

The quarter reflected $20 million of pretax realized capital gains and $17 million of gains after tax. For the year, we had $164 million of pretax realized capital gains and $114 million of gains after tax. These gains are mainly attributable to fair value adjustments.

On income taxes, the 7.7% effective tax rate on operating income for the year reflects one-time adjustments during 2012 and the impact of the realized capital gains on the effective tax rate calculation. It is expected that the tax rate on operating income will normalize with an overall effective rate of approximately 13% in 2013. This rate depends on the geographic region where the income is earned, the tax rate in that region, and the impact of realized capital gains or losses.

Strong cash flow continues, with operating cash flows of $664 million for the year, compared to $660 million in 2011. This is despite the high level of catastrophe loss payments over the last two years.

We've earned almost $1 billion of comprehensive income this year. This primarily reflects $829 million of net income for the year, plus unrealized depreciation on securities of $154 million and foreign currency translation adjustment of $23 million.

Turning to capital management, in addition to dividend payments to shareholders of $25 million, we’ve repurchased 371,000 shares this quarter, at a total cost of $40 million. For the year, we’ve repurchased 3 million shares at a total cost of $290 million.

Additionally, we repurchased another $38 million of stock after the year-end close. These purchases will be reflected in the first quarter 2013 financial statements. The Company has 4 million shares remaining after these January purchases under a share repurchase authorization from the Board of Directors.

Shareholders' equity increased to $6.7 billion this year, up 11% from $6.1 billion at year end 2011. This is after taking into account the $290 million of stock repurchases and the $100 million of dividends paid in 2012.
Book value per share increased 16% to $130.96 from $112.99 at year end 2011. Our strong capital position leaves us with capacity to maximize our business opportunities as well as continue share repurchases.

Thank you, and now I’ll turn it back to Beth for Q&A.

Beth Farrell - Everest Re Group, Ltd. - VP IR
Tim, we already are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Josh Shanker, Deutsche Bank.

Josh Shanker - Deutsche Bank - Analyst
Good morning. I realized you are holding us a little bit in suspense about a partnership coming up, but can you explain a little bit about how partnerships overall are going to be able to transform the business and how transformational it can be?

Dom Addesso - Everest Re Group, Ltd. - President
Yes, relates -- Josh, this is Dom. What I was referencing, I can’t get into the details because we have not concluded on the transaction. But, essentially, it’s going to leave us with the ability to take our nonstandard auto book, which is currently running at about $30 million of premium, and it’s anticipated that that could grow to as much as $80 million into 2013.

This will give us much better scale in that business, which it is a business that needs scale, and, as a consequence, not only the ability to improve our underwriting account, meaning by the loss ratio, but also give us an expense advantage. So without getting into the details of the structure and with who, that’s the intended outcome.

Josh Shanker - Deutsche Bank - Analyst
Understood. And you may have seen one of your former peers was railing against sidecars as a potential (inaudible) is an issue that will ultimately lower the profits for the industry. Where do you think the industry is five years from now? And, as you participate to some extent in that, what’s the right business mix over the long-term?

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO
Well, I’ll start with that, Josh. You know, clearly, we see more alternate capacity coming into the marketplace. Some of it is sidecar; some of it is pension fund, and other ways. And we intend to participate in that market. And, frankly, we intend to make some fees on that market.

In the beginning, the fee part of our book is going to be quite small compared to the risk-taking part that we are currently on. But at the end of the day, given our ratings and our offices around the world, our people, the fact that we know clients for many, many years, we see a lot more business, especially on the catastrophe side. And we can accommodate — or want to accommodate, given the fact that we want to keep P&Ls to a certain degree. So we have tremendous opportunity to write a lot more business, share it with some partners, and make fees in the process.
Yes, that kind of brings more capacity into the marketplace, especially as others do it as well. And it may make for more competition, although there is always competition. And we still think all the money that’s coming in, and any of the money that we bring in, will only want to come in from profitable business and so we think it will be a good model.

In terms of ultimately how much will be fee and how much will be risk-taking, that remains to be seen. But, clearly, for now, it’s going to be mostly -- most of our earnings are going to be on the risk-taking side.

Josh Shanker - Deutsche Bank - Analyst

And given that you guys have extra capacity, along those lines you may not -- you certainly could write more business if it became available, are you giving up profitability in order to make a footprint in the alternative capacity market?

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

No, we are not looking to take away from anything that we would want to keep for ourselves. That really is the design. Now, will try to put ourselves in the same position with our new partners, so they feel as if it’s really equal trading, but we are not looking to give away $1.00 worth of business that we would normally write for ourselves.

Josh Shanker - Deutsche Bank - Analyst

Is there any risk to that? I mean, that’s always been my concern that while of course you don’t want to give any away, that there is a risk of that happening. Am I mistaken about that?

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

I don’t see that, Josh. We really kind of measure our appetite quite keenly nowadays and would continue to do so. And I think, again, given the opportunities, we’ll be able to fill our plate with everything that we want and then have more that we can share with others on a fee basis.

Josh Shanker - Deutsche Bank - Analyst

Well, thank you. I appreciate the answers.

Operator

Amit Kumar, Macquarie.

Amit Kumar - Macquarie Research Equities - Analyst

Thanks, and good morning. Maybe just going back to the discussion on capital. Obviously, you have all these new opportunities. How do you think about capital management for 2013?

The reason why I’m asking is that relatively it has been lower than some of the other companies. What sort of map do you use? Is it buybacks plus dividends would equal net income? Or is there something beyond in terms of how you look at 2013 in terms of capital management?
Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

Well, I think we start with what are the opportunities that we see. We certainly see plenty of that, including some new opportunities on the business side. As Dom noted, we certainly want to be prepared for future opportunities that arise, if the world changes, and it has a habit of doing that. But, at the same time, we look at our stock, where it’s trading, the current portfolio, the people, the future, and we feel very good about buying back a whole lot more stock.

Now, we were kind of prevented from doing that in 2012. We took ourselves out of the market for hurricane season, were keen to get back into the market in the fourth quarter and then Sandy happened. And we did not want to get back into the market until we put out an estimate on Sandy, which took us late into December.

So we bought some after that and a bit early January. But as I noted, we are keen as soon as the open window comes, to get back into the market and buy some more. So we are going to foster earnings and ROE in multiple ways -- some of it in business; some of it new business; some of it stock buyback.

Amit Kumar - Macquarie Research Equities - Analyst

So it seems that, just based on the ranking, it seems to be of lower relative importance, just based on how much you've grown excess capital in 2012. It seems that you’re saying that let’s look at the opportunities, and maybe further down the list you're looking at the stock's multiple, because clearly, there’s value which can be created in terms of buyback right now. But it just seems that it’s somewhat down the list. Is that a fair assertion?

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

No, I wouldn't put it that way. We bought back about 25% of our stock in recent years. We bought back close to $300 million in 2012 and would have bought back a bunch more if it wasn’t for Sandy. So, no, I think it’s still important in the sense that we think it’s a great opportunity for us to buy.

And we don’t think it’s one that’s going to last forever, quite honestly, so we are keen to do a fair amount now. But there are opportunities out there, both in the existing business and new business and, again, what else may come about. So it’s always a bit of a juggling act, but we are happy that we have both levers to press to increase the ROE for next year. And I would not say that it’s of less importance.

Amit Kumar - Macquarie Research Equities - Analyst

I guess my offset to that point would be why even look at nonstandard auto opportunities based on the history, just based on the stock multiple right now?

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

Well, that's the business we are already in. We have a small company that operates out of Georgia. We are looking to be able to add to that and add to the margins via the construction that Dom took you through.

And, frankly, it’s just an add-on. That requires very little capital, quite honestly, and we believe it will increase profits. We like the proposed business plan, but in the scheme of capital usage, it’s really quite small.

Dom Addesso - Everest Re Group, Ltd. - President

And it meets our return objectives in terms of how we think it can perform.
And what are the return objectives?

12% to 13%, 14% return on capital.

Okay. The only other question I have is a lot of the other companies have talked about -- they've given sort of a flavor in terms of 1/1 renewals. And you sort of have broadly alluded to it. How much do you expect the prop cat book to grow for 2013? I think previously you've talked about maybe a billion-dollar-plus number, generally. How do you think about that for 2013?

Well, as I mentioned in my opening comments, we've already at 1/1 increased our property premium by $150 million. So that was essentially 15% growth, if you will (multiple speakers)

Okay, I'm sorry. I was on another call.

-- to the annual number. Shame on you.

(laughter) I guess, related to that, did you discuss your PMLs? Did I miss that too? In terms of how do you expect the risk profile to shift with that growth? I think previously the number was 11%-ish.

Well, you didn't miss that because we didn't discuss our PMLs. And they will go up slightly, but as a percentage of capital, and they are not expected to move at all.

Got it. Okay.

But nominally they will increase, of course.
Nominal. Okay. That's all I have for now. Thanks so much.

Operator

Michael Nannizzi, Goldman Sachs.

Michael Nannizzi - Goldman Sachs - Analyst

Thanks. Just wondered, Dom, maybe in the insurance book, can you tell us what percentage of the business is crop maybe this year, and now, with all the noise out of the way in 2013, how big is the book as a percentage of the total?

Dom Addesso - Everest Re Group, Ltd. - President

Well, for 2012, off the top of my head I would say around 20%. And going into next year, we would expect that to increase because of not only growth objectives and the hiring of some underwriters and marketing teams, and the elimination of the quota share, that's likely to grow by $100 million at least.

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

It will be about 30% for the overall book. Yes.

Michael Nannizzi - Goldman Sachs - Analyst

Okay. Got it. And do you expect the rest of the non-crop insurance book to grow as well? Or do you expect that to kind of -- because obviously, you've got a lot of puts and takes; a lot of moving parts, some new initiatives; some things kind of going away. I'm guessing the program business is kind of done in terms of the net change.

Dom Addesso - Everest Re Group, Ltd. - President

Yes, the runoff for the program business is not going to have any major impact. But, yes, we will have growth in our excess casualty book initiative that we've started, environmental book of business that we have. The nonstandard auto, I've already mentioned.

We've started up a new specialty unit that will grow -- will have a modest amount of new premium, maybe $20 million in 2012, but that rapidly will grow from there and the years beyond, and as well as, I mentioned, expansion of the Canadian platform. We've got a number of oars in the water all over the place in the insurance space.

And as the California DIC will be growing, our professional liability book as well, and then of course double-digit rate increases in Workers' Comp. So we are quite enthusiastic about that space right now.

Michael Nannizzi - Goldman Sachs - Analyst

And do you think -- I mean, if your double-digit rate on the 70% or 80% of the book outside of crop, crop gets back to high 80%'s, maybe 90%, I mean, is low 90%'s feasible for 2013 in the insurance business? Is that possible?
Dom Addesso - Everest Re Group, Ltd. - President

With a good crop year, I suppose that’s possible. Sure.

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

Yes, I would say yes with a good crop year. Comp continues to trend very nicely. We continue to get very sizable rate increases and that continued into January. Dom touched on all the other areas, which we really feel quite good about as well. So the answer is yes.

Michael Nannizzi - Goldman Sachs - Analyst

Great. And then just last question, not to beat on the buyback, but I guess, in my math I get about $100 million of buybacks in the beginning of the year. Next year book value goes up [a buck-ish]. What math, when you think about deployment outside of buybacks, gets you to that sort of book value growth? I mean, if you assume that you’re writing business against $100 million, for example, what is the kind of trade-off as you see it internally? Thanks.

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

Well, you get into where you can invest it and where you can use it against the business. And, you know, and you get into what’s the timing as to when you want to use it. If you don’t buyback on Monday, you can always buyback on Tuesday. So it’s not like the opportunity necessarily goes away.

But I will say that the levels that we’ve been trading at really are pushing us to do more sooner as opposed to later because, frankly, we don’t believe it will stay at these levels. But having bought back 25% is a good chunk to begin with. And, again, the fact that we bought back $300 million, we are looking to buy back more and kind of telling you as soon as we can, we’re going to jump into the market tells you that that’s certainly part of what we plan to do as well.

Michael Nannizzi - Goldman Sachs - Analyst

Great. Thank you.

Operator

Vinay Misquith, Evercore Partners.

Vinay Misquith - Evercore Partners - Analyst

Hi. First, just a numbers question. Within the US primary insurance operation, the commission expense ratio was really low this quarter. Just wondering if there were some one-time items in there?

Craig Howie - Everest Re Group, Ltd. - EVP, CFO

Primarily, related to crop. In other words, contingent commissions that would have had to be paid out, given that a poor crop year took place, were taken down in the quarter.
Vinay Misquith - Evercore Partners - Analyst
Sure. So we should just move back up to the normal level of about 17.5% for the future, correct? Okay.

Craig Howie - Everest Re Group, Ltd. - EVP, CFO
That's correct.

Vinay Misquith - Evercore Partners - Analyst
Okay. That's helpful. Secondly, on the margins, as you look at the various opportunities, do you expect your accident year combined ratio to improve further from these levels? I mean, they are certainly very good right now.

Dom Addesso - Everest Re Group, Ltd. - President
Yes, we do.

Vinay Misquith - Evercore Partners - Analyst
Okay. And that's driven by business exchange or is that pure pricing?

Dom Addesso - Everest Re Group, Ltd. - President
Well, some of the pricing that I referenced, particularly in the insurance space and in cat, general casualty, rate increases as it affects our treaty books. And then, of course, continued push towards write more excess of loss business, spread our cat aggregate laterally, if you will, and that should have a furthering impact -- positive impact on the attritional loss rate ratio.

Vinay Misquith - Evercore Partners - Analyst
Okay. That's helpful. And then one final thing, if I may. Just looking in terms of cats, would you say that this year is -- I mean, last year; sorry -- was a normal year in terms of cats? Or do you think it was a higher than normal year in terms of cats and ag losses?

Dom Addesso - Everest Re Group, Ltd. - President
That number was approximately what we project as what we call our average annual loss.

Vinay Misquith - Evercore Partners - Analyst
Right.

Dom Addesso - Everest Re Group, Ltd. - President
Now that doesn't -- I don't know that there is an average annual, but over the long-term, that would be considered a theoretical average year.
Okay, that's fair. Thank you very much.

Operator
Brian Meredith, UBS.

Brian Meredith - UBS - Analyst
Yes, good morning, everybody. A couple questions here. First, the property growth that you're seeing, where is that coming from? Is that cat business; is it international; US?

Dom Addesso - Everest Re Group, Ltd. - President
The cat business that we -- it's (multiple speakers)

Brian Meredith - UBS - Analyst
It's property cat when you referred to property, [$150 million]?

Dom Addesso - Everest Re Group, Ltd. - President
Yes. The US and Europe (multiple speakers) predominantly.

Brian Meredith - UBS - Analyst
Okay. Great. And then I'm just curious what your thoughts are on the opportunities in Florida as we approach the midyear renewals with the depopulation of Citizens.

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO
Well, we think there will still be some very good opportunities there. Certainly the market at the insurance level continues to get healthier with rate increases, so it will be a bigger pie. There are still an awful lot of companies down there that are very much in need of reinsurance.

You saw what Citizens did last year. So I think it's a big pie. It's an explosive pie and people are somewhat cautious as to how they fill up. It tends to be everyone's number-one zone in terms of PML. It is for us. So I think there will continue to be some very good opportunities down there for companies like ourselves in June.

Brian Meredith - UBS - Analyst
Joe, is that a place that you're more likely to use your sidecar, do you think, at this point?
Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

Yes, it’s not a sidecar that we are putting together, and that’s -- in the sense the sidecars tend to be operations that are put together for one or two years and then they are kind of designed to go away. We are putting something together that will be in place permanently. But Florida is exactly the kind of opportunity where we are going to have a PML that we don’t want to proceed, and we’re going to have a ton of business beyond that, that we could probably if we wanted to.

Brian Meredith - UBS - Analyst

Great. And then last quick questions here. Is Heartland a player in the winter wheat area? I know they’ve been having some issues with winter wheat crops this year.

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

It’s in that space. It’s probably about 10% of the book. Soybean and corn is bigger, but it’s in that space. And so, yes, that has started. And, you know, it’s early days, but looks fine so far.

Brian Meredith - UBS - Analyst

Great. Thank you very much.

Operator

Greg Locraft, Morgan Stanley.

Greg Locraft - Morgan Stanley - Analyst

Hi. Thanks. Just wanted to open up the reserve side of the equation. It’s been, in the past, a concern of some in the investment community. It seems like in the exit 2012, it’s the third year of very, very little reserve movement either way. How are you feeling on this line?

You know, our work suggests you have considerable excess here. Many in the industry have been releasing. I guess, on the good side, that isn’t a headwind going forward because you don’t need to pull from reserves to hit your target ROEs.

On the other hand, you haven’t been releasing. It seems like you’ve been holding back. So how do you feel on reserves as you enter 2013 and beyond?

Craig Howie - Everest Re Group, Ltd. - EVP, CFO

Greg, this is Craig. We’ve completed our annual loss reserves studies and we are comfortable with our overall position that we remain adequate. You know we have posted our global loss development triangles for the past couple years. And they also appear adequate.

I’m comfortable with this position, and I’m also comfortable with respect to the practice suits and the procedures that we have put into place to come up with such a good reserve position. I think this Company produces good results without those releases in place.

I think one of the things that I like also is the fact that we take our time to react to favorable development. Some of these redundancies that you’ve seen have developed over time, but we don’t want to react until that position becomes more mature. So we continue to hold the more recent years and we expect to do the same going forward as well.
Greg Locraft - Morgan Stanley - Analyst

So actually the peers that are releasing, it's not that you are any different; it's just that you're holding back. Philosophically, you are holding back more than they are?

Craig Howie - Everest Re Group, Ltd. - EVP, CFO

We can't speak to that.

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

We're not going to get into what others do. We don't know what they do and we're not here to comment on that.

Greg Locraft - Morgan Stanley - Analyst

Okay. And then just last one on this -- has the reserving practices of the Corporation changed at all in the last few years? And, again, it was never a big issue. It just seemed to break against shareholders more frequently several years ago than it has happened in the last several years. So I'm just wondering if there was a shift at all.

Craig Howie - Everest Re Group, Ltd. - EVP, CFO

Greg, that's a good question. I think the reserve practices did change a few years back to create this position that we are in today. I think the practices that we put into place by meeting on a quarterly basis and setting up these estimates on a quarterly basis, it's difficult to estimate what these numbers should be to begin with, but the practice that we put into place is pretty conservative.

We look at prior-year losses, look at the prior year loss review and then we compare and put loss trend on top of that. And then we also take note of any rate increases or decreases in the marketplace at the same time. But what that does is gives us appropriate data to look and set our reserve position at any given point in time. But that same process has been taking place over the last three years.

Dom Addesso - Everest Re Group, Ltd. - President

It's a kind way of saying, Greg, that it's my fault.

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

(multiple speakers) (laughter) to say we had a great CFO by the name of Dom Addesso that started this process, that did an excellent job in making our process more robust.

Greg Locraft - Morgan Stanley - Analyst

Okay. Great. And then I do just want to clarify. Your forward view on ROE and everything, that includes no reserve movement either way, right?

Joe Taranto - Everest Re Group, Ltd. - Chairman, CEO

Yes. That's correct. We do not put that into any thoughts that we give you with regard to the targets we are shooting for.
Okay. Awesome, good to hear. Okay, good. Thanks and solid year. I appreciate it.

And that concludes our question and answer session. I'll turn it over to our presenters for any closing remarks.

I'd like to thank everybody for participating on the call and talk to you again next quarter. Thank you.